

Your VESTED



INTEREST

North Dakota State Investment Board

March 2002

THE ENRON END RUN

If you are one of the many plan participants and retirees who called the Retirement and Investment Office recently to inquire about Enron, then relax and read no further. You already know that we have successfully avoided one of the greatest investment risks known to plan administrators, "headline risk." The old adage, "no news is good news," is clearly in evidence here, as the many callers we have heard from had read horror stories involving other states, but no mention of North Dakota. We herein respond to the several questions that have been posed in recent calls to our office.

First of all, no, we don't use Arthur Anderson to audit the investment program of the State Investment Board.

Yes, Alliance Capital Management is one of the 20-plus firms used to invest assets, but our account with Alliance does not (and never did) hold Enron stock.

And the big question, of course, did we hold stock in Enron? Over the past three years, two of our portfolio managers held Enron stock. One of those managers, Wilshire Associates,



held Enron in a large cap value index fund. The State Investment Board redirected Wilshire towards a different strategy during the summer of 2000, forcing Wilshire to liquidate Enron somewhere north of \$70 per share. Our Enron experience is not all champagne and bubbles however, because we continued to have exposure to the stock through units held

in a S&P 500 Index Fund managed by State Street Global Advisors. Because Enron was such a large company, it was included in the S&P 500 by default, so to speak! Any investor using a full replication portfolio would have had exposure to Enron. When Enron was dismissed from the S&P 500 at the end of November 2001, our exposure ended. So why didn't this story make your local newspaper? Well, while the value of Enron stock has fluctuated widely, it never even amounted to 1/10th of one percent of our Pension Trust portfolio, even at its highest value.

Once again, diversification as an investment concept is recognized for insulating us from the kind of economic tragedy that has struck many poor souls whose nest egg was highly dependent on the stock of one seemingly solid company.



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

*Teachers' Fund for Retirement
State Investment Board*

State Investment Board

Lt. Governor Jack Dalrymple, *Chair*
Weldee Baetsch, Brent Edison,
Kathi Gilmore, David Gunkel, Paul Lofthus,
Jim Poolman, Gary Preszler, Howard Sage,
Mark Sanford, Norman Stuhlmiller.

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Other forms of this newsletter are available on request.*



BEAR MARKET PERFORMANCE COMPARISON

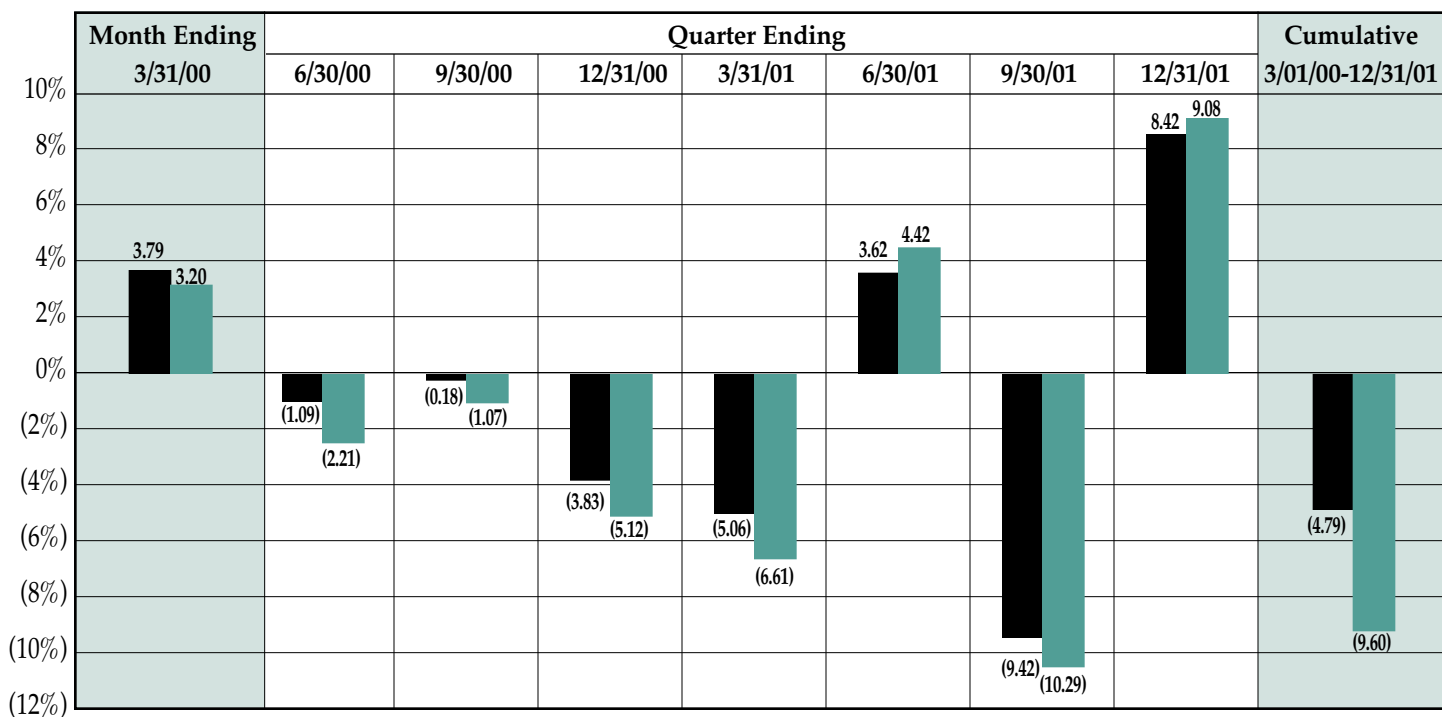
FROM THE DIRECTOR'S CHAIR

As this article is being written, the news reports that 60 percent of economists believe that the recession is over and the stock market seems to be trying to find a base from which to eventually lift off. I'm not making any predictions, but I thought it would be fun to take a look at how the Pension Trust performed since the inception of this bear market, which we will define as beginning in March 2000.

The performance graphs below, like any picture, are worth a thousand words, but my editor says I still have to write the narrative! The information presented focuses on the seven quarters ended December 31,

2001, and includes the month when the market changed its mood, March 2000. In each period presented, we compare the return of the Pension Trust with the Policy Mix Index, a benchmark that fairly represents the market returns available to investors. The excess of Pension Trust performance over Policy Mix Index, if any, represents value added through superior management or simply put, "beating the market."

As you scan the graphs, you will notice that the Pension Trust did indeed outperform the market in five of the seven quarters, as well as turning in a value-added performance for March 2000. A couple of observations add some life to the raw data: first of all, note that each of the winning quarters occurred in negative territory. In other words, the Pension Trust lost less than the market; conserving value during poor markets is a hallmark of successful pension fund management. Secondly, check out the cumulative performance. According to the Policy Mix Index, we have certainly been in a bear market for the last 22 months. Across all asset

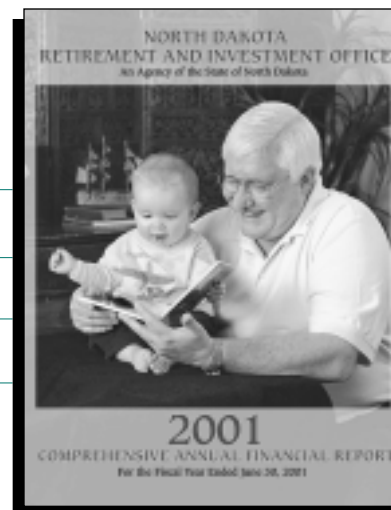


classes, this Index was down 9.6 %. Major contributing culprits include the U.S. stock market S&P 500 index down 14.04%, the international developed markets EAFE stock index down 29.89%, and the international emerging markets MSCI Free stock index off by 33.53%. In the face of this kind of headwind, the Pension Trust lost 4.79% for the 22-month period.

One more bit of simple math and I will let you go till next time. If the market was down 9.6% and we were down 4.79%, the amount we refused to give up to the bear was 4.81%. To be conservative, we'll say that over the same period, the Pension Trust averaged \$2.5 billion in size. A savings of 4.81% on that sum of money means that more than \$120,000,000 was retained in the Trust through all the turmoil. And in times like these, that's something to smile about!

2001 ANNUAL FINANCIAL REPORT AVAILABLE

The North Dakota Retirement and Investment Office Comprehensive Annual Financial Report (CAFR) may be viewed from our website, or a copy may be requested by contacting the administrative office. This report is a complete review of the financial, investment, and actuarial conditions of the State Investment Board and the Teachers' Fund for Retirement.



Visit our website for information from the
North Dakota Retirement and Investment Office...
www.discovernd.com/rio

ANNUAL EXTERNAL AUDIT

*The North Dakota Retirement and Investment Office (RIO)
is audited by an external, independent audit firm on an annual basis.*

The process used to select the auditing firm is conducted by the Office of the State Auditor (OSA). The OSA solicits proposals from external auditors or consultants to perform audits of state agencies or provide additional expertise. A Request For Proposal is sent to several Certified Public Accounting firms listing the scope of services required to perform a financial audit of RIO. The contract is awarded based on a point system developed by OSA, taking into consideration the experience level of the prospective firm, the time required to complete the audit, the cost, and various other items. A three-year contract is awarded to the successful bidder.

RIO is in the third year of its current contract with the audit firm Brady,

Martz & Associates. Brady, Martz has offices in Bismarck, Minot, and Grand Forks, ND, and Thief River Falls, MN.

The purpose of an external audit is to determine whether the auditee's financial statements and supplementary information are free of material misstatement. In other words, RIO's staff compiles its financial information and the external audit firm performs a series of tests and checks of the supporting documentation, reviews confirmations with our clients, and interviews staff members. They also test the internal controls of the office to determine whether there is a risk that material errors could occur and not be detected on a timely basis. The results of these tests are reviewed and compiled in a report

which includes, among other statements, a balance sheet, a statement of revenues and expenses (income statement), and a cash flow statement.

On staff at RIO are two internal auditors who monitor office policies and procedures and do periodic testing to determine that proper controls are in place. The tests are documented and presented to the external auditors. The external auditors rely on the internal audit department for this information and use it to determine the extent and range of their own testing.

Our most recent audit for the year ended June 30, 2001, yielded an unqualified, or clean, opinion.

STATE INVESTMENT BOARD

The SIB is responsible for the administration of the investment programs of 5 pension funds and 14 insurance type funds.



Pictured, left to right, back row: Paul Lofthus (TFFR), David Gunkel (PERS), Weldee Baetsch (PERS), Brent Edison (Worker's Compensation Dir.). Left to right, front row: Gary Preszler (Land Commissioner), Howard Sage (PERS), Jack Dalrymple (Lt. Governor), Mark Sanford (TFFR), Norm Stuhlmiller (TFFR). Not pictured: Kathi Gilmore, (State Treasurer); Jim Poolman, (Insurance Commissioner).

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of the plan participants. The insurance investment pool is made up of insurance type funds and other funds that wish to benefit from the cost savings of being pooled with other assets.

All funds are invested in accordance with the "Prudent Investor Rule." Investments are managed exclusively in the interest of meeting each fund's objectives. The SIB retains professional investment managers, consultants and custodians to assist in the implementation of the investment program.

PENSION TRUST

Teachers' Fund for Retirement
Public Employees Retirement Fund
City of Bismarck
•Employees Pension Fund
•Police Pension Fund
Job Service of ND Pension Fund

INSURANCE POOL

Workers Compensation Fund
State Fire & Tornado
State Bonding Fund
Insurance Regulatory Trust Fund
Petroleum Tank Release
Compensation Fund
State Risk Management Fund
Veterans Post War Trust Fund
Veterans Cemetery Trust Fund
ND Association of Counties
ND Association of Counties
Savings Program
City of Bismarck
Deferred Sick Leave Fund
PERS Group Insurance Fund
ND Health Care Trust Fund

INDIVIDUAL INVESTMENT ACCOUNT

PERS Retiree Health Insurance
Credit Fund

